

105TH CONGRESS  
1ST SESSION

# S. 218

To invest in the future American workforce and to ensure that all Americans have access to higher education by providing tax relief for investment in a college education and by encouraging savings for college costs, and for other purposes.

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IN THE SENATE OF THE UNITED STATES

JANUARY 28, 1997

Mr. BIDEN introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To invest in the future American workforce and to ensure that all Americans have access to higher education by providing tax relief for investment in a college education and by encouraging savings for college costs, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Growing the Economy  
5 for Tomorrow: Assuring Higher Education is Affordable  
6 and Dependable Act”.

1 **SEC. 2. FINDINGS.**

2 The Congress finds that—

3 (1) since 1980 the cost of public college tuition  
4 and fees has increased nearly three times faster than  
5 the median household income;

6 (2) in 1995, 8.4 percent of the median house-  
7 hold income was required to pay for the average cost  
8 of public college tuition and fees whereas 4.5 percent  
9 of such income was required to pay for such cost in  
10 1980;

11 (3) in 1995, 36.5 percent of the median house-  
12 hold income was required to pay for the average cost  
13 of private college tuition and fees whereas 20.4 per-  
14 cent of such income was required to pay for such  
15 cost in 1980;

16 (4) educating America's future workforce is one  
17 of the best investments we as a society can make  
18 and one of the best measurements of future eco-  
19 nomic well-being; and

20 (5) the Federal Government should renew and  
21 strengthen its longstanding commitment to seeing  
22 that young people desiring to go to college are not  
23 turned away because of the cost.

1     **TITLE I—TAX INCENTIVES FOR**  
 2             **HIGHER EDUCATION**

3     **SEC. 100. AMENDMENT OF 1986 CODE.**

4         Except as otherwise expressly provided, whenever in  
 5 this title an amendment or repeal is expressed in terms  
 6 of an amendment to, or repeal of, a section or other provi-  
 7 sion, the reference shall be considered to be made to a  
 8 section or other provision of the Internal Revenue Code  
 9 of 1986.

10    **Subtitle A—Tax Relief for Higher**  
 11             **Education Costs**

12    **SEC. 101. DEDUCTION FOR HIGHER EDUCATION EXPENSES.**

13         (a) DEDUCTION ALLOWED.—Part VII of subchapter  
 14 B of chapter 1 is amended by redesignating section 221  
 15 as section 222 and by inserting after section 220 the fol-  
 16 lowing new section:

17    **“SEC. 221. HIGHER EDUCATION TUITION AND FEES; INTER-**  
 18             **EST ON STUDENT LOANS.**

19         “(a) ALLOWANCE OF DEDUCTION.—In the case of an  
 20 individual, there shall be allowed as a deduction an  
 21 amount equal to the sum of—

22             “(1) the qualified higher education expenses,  
 23             plus

24             “(2) interest on qualified higher education  
 25             loans, paid by the taxpayer during the taxable year.

1       “(b) QUALIFIED HIGHER EDUCATION EXPENSES.—

2 For purposes of this section—

3               “(1) QUALIFIED HIGHER EDUCATION EX-

4 PENSES.—

5               “(A) IN GENERAL.—The term ‘qualified

6 higher education expenses’ means tuition and

7 fees required for the enrollment or attendance

8 of—

9                       “(i) the taxpayer,

10                      “(ii) the taxpayer’s spouse, or

11                      “(iii) any dependent of the taxpayer

12 with respect to whom the taxpayer is al-

13 lowed a deduction under section 151,

14 as an eligible student at an institution of higher

15 education.

16               “(B) EXCEPTION FOR EDUCATION INVOLV-

17 ING SPORTS, ETC.—Such term does not include

18 expenses with respect to any course or other

19 education involving sports, games, or hobbies

20 unless such expenses—

21                      “(i) are part of a degree program, or

22                      “(ii) are deductible under this chapter

23 without regard to this section.

24               “(C) EXCEPTION FOR NONACADEMIC

25 FEES.—Such term does not include any student

activity fees, athletic fees, insurance expenses,  
or other expenses unrelated to a student's academic course of instruction.

“(D) ELIGIBLE STUDENT.—For purposes of subparagraph (A), the term ‘eligible student’ means a student who meets the requirements of section 484(a)(1) of the Higher Education Act of 1965 (20 U.S.C. 1091(a)(1)).

“(2) DOLLAR LIMITATION.—

“(A) IN GENERAL.—The amount taken into account under paragraph (1) for any taxable year shall not exceed \$10,000.

“(B) PHASE-IN.—In the case of taxable years beginning in 1997, 1998, and 1999, subparagraph (A) shall be applied by substituting ‘\$5,000’ for ‘\$10,000’.

“(3) LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME.—

“(A) IN GENERAL.—If the modified adjusted gross income of the taxpayer for the taxable year exceeds \$70,000 (\$100,000 in the case of a joint return), the amount which would (but for this paragraph) be taken into account under paragraph (1) shall be reduced (but not below zero) by the amount which bears the

1 same ratio to the amount which would be taken  
 2 into account as such excess bears to \$20,000.

3 “(B) INFLATION ADJUSTMENT.—In the  
 4 case of any taxable year beginning in a calendar  
 5 year after 1997, the \$70,000 and \$100,000  
 6 amounts contained in subparagraph (A) shall  
 7 be increased by an amount equal to—

8 “(i) such dollar amount, multiplied by

9 “(ii) the cost-of-living adjustment  
 10 under section 1(f)(3) for the calendar year  
 11 in which the taxable year begins, except  
 12 that section 1(f)(3)(B) shall be applied by  
 13 substituting ‘1996’ for ‘1992’.

14 “(C) ROUNDING.—If any amount as ad-  
 15 justed under subparagraph (B) is not a mul-  
 16 tiple of \$50, such amount shall be rounded to  
 17 the nearest multiple of \$50 (or if such amount  
 18 is a multiple of \$25, such amount shall be  
 19 rounded to the next highest multiple of \$50).

20 “(D) MODIFIED ADJUSTED GROSS IN-  
 21 COME.—The term ‘modified adjusted gross in-  
 22 come’ means the adjusted gross income of the  
 23 taxpayer for the taxable year determined—

24 “(i) without regard to this section and  
 25 sections 911, 931, and 933, and

1 “(ii) after the application of sections  
2 86, 135, 219, 222, and 469.

3 “(4) INSTITUTION OF HIGHER EDUCATION.—  
4 The term ‘institution of higher education’ means an  
5 institution which—

6 “(A) is described in section 481 of the  
7 Higher Education Act of 1965 (20 U.S.C.  
8 1088), and

9 “(B) is eligible to participate in programs  
10 under title IV of such Act.

11 “(c) QUALIFIED HIGHER EDUCATION LOAN.—For  
12 purposes of this section—

13 “(1) IN GENERAL.—The term ‘qualified higher  
14 education loan’ means a loan to a student which is—

15 “(A) made, insured, or guaranteed by the  
16 Federal Government,

17 “(B) made by a State or a political sub-  
18 division of a State,

19 “(C) made from the proceeds of a qualified  
20 student loan bond under section 144(b), or

21 “(D) made by an institution of higher edu-  
22 cation (as defined in section 1201(a) of the  
23 Higher Education Act of 1965 (20 U.S.C.  
24 1141(a))).

25 “(2) LIMITATION.—

1           “(A) IN GENERAL.—The amount of inter-  
 2           est on a qualified higher education loan which  
 3           is taken into account under subsection (a)(2)  
 4           shall be reduced by the amount which bears the  
 5           same ratio to such amount of interest as—

6                   “(i) the proceeds from such loan not  
 7                   used for qualified higher education ex-  
 8                   penses, bears to

9                   “(ii) the total proceeds from such  
 10                  loan.

11           “(B) QUALIFIED HIGHER EDUCATION EX-  
 12           PENSES.—For purposes of subparagraph (A),  
 13           the term ‘qualified higher education expenses’  
 14           has the meaning given such term by subsection  
 15           (b), except that—

16                   “(i) such term shall include reason-  
 17                   able living expenses while away from home,  
 18                   and

19                   “(ii) the limitations of paragraphs (2)  
 20                  and (3) of subsection (b) shall not apply.

21           “(d) COORDINATION WITH OTHER PROVISIONS.—

22                   “(1) NO DOUBLE BENEFIT.—

23                   “(A) IN GENERAL.—No deduction shall be  
 24                  allowed under subsection (a) for qualified high-  
 25                  er education expenses or interest on qualified



higher education loans with respect to which a deduction is allowed under any other provision of this chapter.

“(B) PAYMENTS FROM EXCLUDABLE AMOUNTS.—A deduction shall be allowed under subsection (a)(1) for qualified higher education expenses only to the extent the amount of such expenses exceeds the sum of—

“(i) amounts excludable under section 135 for the taxable year, plus

“(ii) the excess of—

“(I) amounts excludable under sections 117 and 222(d)(2) for the taxable year, reduced (but not below zero) by—

“(II) reasonable expenses paid or incurred during the taxable year for meals and lodging of the taxpayer, spouse, or dependent while an eligible student at an institution of higher education, plus

“(iii) educational assistance allowances under chapter 30, 31, 32, 34, or 35 of title 38, United States Code, plus

1           “(iv) payments (other than a gift, be-  
2           quest, devise, or inheritance within the  
3           meaning of section 102(a)) for educational  
4           expenses, or attributable to attendance at  
5           an eligible educational institution, which  
6           are exempt from income taxation by any  
7           law of the United States.

8           “(2) QUALIFIED RESIDENCE INTEREST.—If a  
9           deduction is allowed under subsection (a)(2) for in-  
10          terest which is also qualified residence interest under  
11          section 163(h), such interest shall not be taken into  
12          account under section 163(h).

13          “(e) SPECIAL RULES.—

14               “(1) ELECTION.—If a deduction is allowable  
15               under more than one provision of this chapter with  
16               respect to qualified higher education expenses, the  
17               taxpayer may elect the provision under which the de-  
18               duction is allowed.

19               “(2) LIMITATION ON TAXABLE YEAR OF DE-  
20               DUCTION.—

21                       “(A) IN GENERAL.—A deduction shall be  
22                       allowed under subsection (a)(1) for any taxable

1 year only to the extent the qualified higher edu-  
2 cation expenses are in connection with attend-  
3 ance at an institution of higher education dur-  
4 ing the taxable year.

5 “(B) CERTAIN PREPAYMENTS ALLOWED.—

6 Subparagraph (A) shall not apply to qualified  
7 higher education expenses paid during a taxable  
8 year which are in connection with attendance at  
9 an institution of higher education which begins  
10 during the first 2 months of the following tax-  
11 able year.

12 “(3) NO DEDUCTION FOR MARRIED INDIVID-

13 UALS FILING SEPARATE RETURNS.—If the taxpayer  
14 is a married individual (within the meaning of sec-  
15 tion 7703), this section shall apply only if the tax-  
16 payer and his spouse file a joint return for the tax-  
17 able year.

18 “(4) REGULATIONS.—The Secretary may pre-

19 scribe such regulations as may be necessary or ap-  
20 propriate to carry out this section, including regula-  
21 tions requiring recordkeeping and information re-  
22 porting.”

23 (b) DEDUCTION ALLOWED IN COMPUTING AD-

24 JUSTED GROSS INCOME.—Section 62(a) is amended by in-

25 serting after paragraph (16) the following new paragraph:

“Sec. 221. Higher education tuition and fees; interest on student loans.

(d) **EFFECTIVE DATES.**—The amendments made by this section shall apply to taxable years beginning after December 31, 1996.

11 (a) IN GENERAL.—Subsections (a) and (b) of section  
12 117 (defining qualified scholarships) are amended to read  
13 as follows:

19 “(b) QUALIFIED SCHOLARSHIP OR FELLOWSHIP.—  
20 For purposes of this section—

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1                   “(A) as a scholarship at an educational or-  
 2                   ganization described in section 170(b)(1)(A)(ii),  
 3                   or

4                   “(B) as a fellowship grant.

5                   Such term includes the value of any contributed  
 6                   services and accommodations included in such schol-  
 7                   arship or grant.

8                   “(2) ADDITIONAL EXPENSES.—The term ‘quali-  
 9                   fied scholarship or fellowship’ includes any amount  
 10                  received to cover expenses for travel, research, cleri-  
 11                  cal help, or equipment which are incident to a schol-  
 12                  arship or fellowship grant described in paragraph  
 13                  (1), but only to the extent that the amount is so ex-  
 14                  pended by the recipient.”

15                  (b) EXTENSION TO CERTAIN INDIVIDUALS WHO ARE  
 16                  NOT DEGREE CANDIDATES.—

17                  (1) IN GENERAL.—Section 117 is amended by  
 18                  adding at the end the following new subsection:

19                  “(e) INDIVIDUALS WHO ARE NOT DEGREE CAN-  
 20                  DIDATES.—

21                  “(1) IN GENERAL.—Subsection (a) shall apply  
 22                  to an individual who is not a candidate for a degree  
 23                  at an educational organization described in section  
 24                  170(b)(1)(A)(ii) if the grantor of the scholarship  
 25                  is—

1           “(A) an organization described in section  
2           501(c)(3) which is exempt from tax under sec-  
3           tion 501(a),

4           “(B) a foreign government,

5           “(C) an international organization, or a bi-  
6           national or multinational educational and cul-  
7           tural foundation or commission created or con-  
8           tinued pursuant to the Mutual Educational and  
9           Cultural Exchange Act of 1961, or

10          “(D) the United States or an instrumen-  
11          tality or agency thereof or a State or possession  
12          of the United States or any political subdivision  
13          thereof.

14          “(2) LIMITATION.—The amounts described in  
15          subsection (b)(1) which may be excluded under sub-  
16          section (a) in the case of an individual described in  
17          paragraph (1) shall not exceed the product of—

18          “(A) \$300, and

19          “(B) the number of months for which the  
20          recipient received amounts under the scholar-  
21          ship or fellowship grant during the taxable year,  
22          except that not more than 36 months (whether  
23          or not consecutive) may be taken into account  
24          under this subsection with respect to any indi-  
25          vidual for all taxable years.”

1           (2) CONFORMING AMENDMENT.—The second  
 2 sentence of section 1441(b) is amended to read as  
 3 follows: “The items of income referred to in sub-  
 4 section (a) from which tax shall be deducted and  
 5 withheld at the rate of 14 percent are amounts  
 6 which are received by a nonresident alien individual  
 7 who is temporarily present in the United States as  
 8 a nonimmigrant under subparagraph (F), (J), (M),  
 9 or (Q) of section 101(a)(15) of the Immigration and  
 10 Nationality Act and which are incident to a qualified  
 11 scholarship or fellowship to which section 117(a) ap-  
 12 plies, but only to the extent such amounts are in-  
 13 cludable in gross income.”

14           (c) REQUIREMENT OF FUTURE SERVICE AS A FED-  
 15 ERAL EMPLOYEE.—Section 117(c) is amended—

16           (1) by striking “Subsections” and inserting:

17           “(1) IN GENERAL.—Subsections”, and

18           (2) by adding at the end the following new  
 19 paragraph:

20           “(2) FEDERAL GRANTS FOR TUITION AND RE-  
 21 LATED EXPENSES NOT INCLUDABLE MERELY BE-  
 22 CAUSE THERE IS REQUIREMENT OF FUTURE SERV-  
 23 ICE AS FEDERAL EMPLOYEE.—

24           “(A) IN GENERAL.—If—

1 “(i) an amount received by an individ-  
 2 ual under a Federal program would be ex-  
 3 cludable under subsection (a) as a scholar-  
 4 ship or fellowship grant but for the fact  
 5 that the individual is required to perform  
 6 future service as a Federal employee, and

7 “(ii) the individual establishes that, in  
 8 accordance with the terms of the grant,  
 9 such amount was used for qualified tuition  
 10 and related expenses,

11 gross income shall not include such amount.

12 “(B) QUALIFIED TUITION AND RELATED  
 13 EXPENSES DEFINED.—For purposes of this  
 14 paragraph—

15 “(i) IN GENERAL.—The term ‘quali-  
 16 fied tuition and related expenses’ means—

17 “(I) tuition and fees required for  
 18 the enrollment or attendance of a stu-  
 19 dent at an institution of higher edu-  
 20 cation, and

21 “(II) fees, books, supplies, and  
 22 equipment required for courses of in-  
 23 struction at an institution of higher  
 24 education.



1           “(ii) INSTITUTION OF HIGHER EDU-  
2           CATION.—The term ‘institution of higher  
3           education’ means an educational institu-  
4           tion in any State which—

5                   “(I) admits as regular students  
6                   only individuals having a certificate of  
7                   graduation from a high school, or the  
8                   recognized equivalent of such a certifi-  
9                   cate,

10                   “(II) is legally authorized within  
11                   such State to provide a program of  
12                   education beyond high school,

13                   “(III) provides an educational  
14                   program for which it awards a bach-  
15                   elor’s or higher degree, provides a  
16                   program which is acceptable for full  
17                   credit toward such a degree, or offers  
18                   a program of training to prepare stu-  
19                   dents for gainful employment in a rec-  
20                   ognized health profession, and

21                   “(IV) is a public or other non-  
22                   profit institution.

23           “(C) SERVICE AS FEDERAL EMPLOYEE.—

24           For purposes of this paragraph, service in a

1 health manpower shortage area shall be treated  
 2 as service as a Federal employee.”

3 (d) CONFORMING AMENDMENTS.—

4 (1)(A) The heading for section 117 is amended  
 5 by adding “**OR FELLOWSHIPS**” after “**SCHOLAR-**  
 6 **SHIPS**”.

7 (B) The item relating to section 117 in the  
 8 table of sections for part III of subchapter B of  
 9 chapter 1 is amended by inserting “or fellowships”  
 10 after “scholarships”.

11 (2) Sections 74(a) and 135(d)(1)(A) are each  
 12 amended by inserting “or fellowships” after “schol-  
 13 arships”.

14 (3) Sections 4941(d)(2)(G)(ii) and 4945(g)(1)  
 15 are each amended by striking “which would be sub-  
 16 ject to the provisions of section 117(a) (as in effect  
 17 on the day before the date of the enactment of the  
 18 Tax Reform Act of 1986)” and inserting “which are  
 19 subject to the provisions of section 117(a)”.

20 (e) EFFECTIVE DATE.—The amendments made by  
 21 this section shall apply to taxable years beginning after  
 22 December 31, 1996.

1 **SEC. 103. EMPLOYER-PROVIDED EDUCATIONAL ASSIST-**  
2 **ANCE PROGRAMS.**

3 (a) PERMANENT EXTENSION.—Section 127 (relating  
4 to exclusion for educational assistance programs) is  
5 amended by striking subsection (d) and by redesignating  
6 subsection (e) as subsection (d).

7 (b) REPEAL OF LIMITATION ON GRADUATE EDU-  
8 CATION.—The last sentence of section 127(c)(1) of such  
9 Code is amended by striking “, and such term also does  
10 not include any payment for, or the provision of any bene-  
11 fits with respect to, any graduate level course of a kind  
12 normally taken by an individual pursuing a program lead-  
13 ing to a law, business, medical, or other advanced aca-  
14 demic or professional degree”.

15 (c) EFFECTIVE DATES.—

16 (1) EXTENSION.—The amendments made by  
17 subsection (a) shall apply to taxable years beginning  
18 after December 31, 1996.

19 (2) GRADUATE EDUCATION.—The amendment  
20 made by subsection (b) shall apply with respect to  
21 expenses relating to courses beginning after June  
22 30, 1996.

1     **Subtitle B—Encouraging Savings**  
 2             **for Higher Education Costs**

3     **SEC. 111. DISTRIBUTIONS FROM CERTAIN PLANS MAY BE**  
 4                     **USED WITHOUT PENALTY TO PAY HIGHER**  
 5                     **EDUCATION EXPENSES.**

6             (a) IN GENERAL.—Paragraph (2) of section 72(t)  
 7 (relating to exceptions to 10-percent additional tax on  
 8 early distributions from qualified retirement plans) is  
 9 amended by adding at the end the following new subpara-  
 10 graph:

11                     “(E) DISTRIBUTIONS FROM CERTAIN  
 12                     PLANS FOR EDUCATIONAL EXPENSES.—Dis-  
 13                     tributions to an individual from an individual  
 14                     retirement plan, or from amounts attributable  
 15                     to employer contributions made pursuant to  
 16                     elective deferrals described in subparagraph (A)  
 17                     or (C) of section 402(g)(3) or section  
 18                     501(c)(18)(D)(iii), to the extent such distribu-  
 19                     tions do not exceed the qualified higher edu-  
 20                     cation expenses (as defined in paragraph (6)) of  
 21                     the taxpayer for the taxable year.”

22             (b) DEFINITION.—Section 72(t) is amended by add-  
 23 ing at the end the following new paragraph:

24                     “(7) QUALIFIED HIGHER EDUCATION EX-  
 25                     PENSES.—For purposes of paragraph (2)(E)—

“(A) IN GENERAL.—The term ‘qualified higher education expenses’ means tuition, fees, books, supplies, and equipment required for the enrollment or attendance of—

“(i) the taxpayer,

“(ii) the taxpayer’s spouse, or

“(iii) any child (as defined in section 151(c)(3)), grandchild, or ancestor of the taxpayer or the taxpayer’s spouse, at an eligible educational institution (as defined in section 135(c)(3)).

“(B) COORDINATION WITH OTHER EXCLUSIONS.—The amount of qualified higher education expenses for any taxable year shall be reduced by the sum of—

“(i) any amount excludable from gross income under section 135, plus

“(ii) the excess of—

“(I) amounts excludable under section 222(d)(2) for the taxable year, reduced (but not below zero) by—

“(II) reasonable expenses paid or incurred during the taxable year for meals and lodging of the taxpayer, spouse, or dependent while an eligible

1 student at an institution of higher  
2 education.

3 For purposes of this subparagraph, the terms  
4 ‘eligible student’ and ‘institution of higher edu-  
5 cation’ have the meanings given such terms by  
6 section 221.”

7 (c) CONFORMING AMENDMENTS.—

8 (1) Section 401(k)(2)(B)(i) is amended by  
9 striking “or” at the end of subclause (III), by strik-  
10 ing “and” at the end of subclause (IV) and inserting  
11 “or”, and by inserting after subclause (IV) the fol-  
12 lowing new subclause:

13 “(V) the date on which distribu-  
14 tions for qualified higher education  
15 expenses (as defined in section  
16 72(t)(7)) are made, and”.

17 (2) Section 403(b)(11) is amended by striking  
18 “or” at the end of subparagraph (A), by striking the  
19 period at the end of subparagraph (B) and inserting  
20 “, or”, and by inserting after subparagraph (B) the  
21 following new subparagraph:

22 “(C) for the payment of qualified higher  
23 education expenses (as defined in section  
24 72(t)(7)).”

1 (d) EFFECTIVE DATE.—The amendments made by  
 2 this section shall apply to payments and distributions after  
 3 the date of the enactment of this Act.

4 **SEC. 112. EDUCATION SAVINGS ACCOUNTS.**

5 (a) IN GENERAL.—Part VII of subchapter B of chap-  
 6 ter 1 (relating to additional itemized deductions for indi-  
 7 viduals), as amended by section 101, is amended by redes-  
 8 ignating section 222 as section 223 and by inserting after  
 9 section 221 the following new section:

10 **“SEC. 222. EDUCATION SAVINGS ACCOUNTS.**

11 “(a) DEDUCTION ALLOWED.—In the case of an indi-  
 12 vidual, there shall be allowed as a deduction the sum of—

13 “(1) amounts paid in cash, and

14 “(2) the fair market value of stocks, bonds, or  
 15 other securities which are readily tradeable on an es-  
 16 tablished securities market and which are trans-  
 17 ferred,

18 during the calendar year which ends with or within the  
 19 taxable year by such individual to an education savings  
 20 account established for the purpose of accumulating funds  
 21 to pay the educational expenses of an eligible individual.

22 “(b) LIMITATIONS.—

23 “(1) MAXIMUM DEDUCTION PER ACCOUNT.—

24 The amount allowable as a deduction under sub-  
 25 section (a) to an individual for amounts paid or

transferred to an education savings account for any calendar year shall not exceed \$2,000.

“(2) LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME.—

“(A) IN GENERAL.—If the modified adjusted gross income of the taxpayer for the taxable year exceeds \$70,000 (\$100,000 in the case of a joint return), the amount which would (but for this paragraph) be taken into account under subsection (a) shall be reduced (but not below zero) by the amount which bears the same ratio to the amount which would be taken into account as such excess bears to \$20,000.

“(B) MODIFIED ADJUSTED GROSS INCOME.—The term ‘modified adjusted gross income’ means the adjusted gross income of the taxpayer for the taxable year determined—

“(i) without regard to this section and sections 221, 911, 931, and 933, and

“(ii) after the application of sections 86, 135, 219, and 469.

“(C) NONDEDUCTIBLE CONTRIBUTIONS.—

**“For nondeductible contributions to education savings accounts, see subsection (k).**

“(3) LIMITATIONS ON ACCOUNTS.—



1           “(A) ACCOUNT MAY NOT BE ESTABLISHED  
2           FOR BENEFIT OF MORE THAN 1 INDIVIDUAL.—

3           An education savings account may not be estab-  
4           lished for the benefit of more than 1 individual.

5           “(B) ELIGIBLE INDIVIDUAL TREATED AS  
6           ELIGIBLE INDIVIDUAL ONLY WITH RESPECT TO  
7           1 ACCOUNT.—If, at any time during a calendar  
8           year, 2 or more education savings accounts are  
9           maintained for the benefit of an eligible individ-  
10          ual, such individual shall be treated as an eligi-  
11          ble individual for the calendar year only with  
12          respect to the first of such accounts.

13          “(4) NO DEDUCTION AFTER BENEFICIARY AT-  
14          TAINS AGE 19.—No deduction shall be allowed for  
15          any contribution to an education savings account es-  
16          tablished for the benefit of an eligible individual who  
17          has attained age 19 before the close of the calendar  
18          year in which such contribution is made.

19          “(5) ADJUSTMENT OF DOLLAR AMOUNT LIM-  
20          TATIONS FOR INFLATION.—

21                 “(A) IN GENERAL.—In the case of any cal-  
22                 endar year after 1997, the \$70,000 and  
23                 \$100,000 amounts under paragraph (2), shall  
24                 each be increased by an amount equal to—

25                         “(i) such dollar amount, multiplied by

1 “(ii) the cost-of-living adjustment de-  
 2 termined under section 1(f)(3) for such  
 3 calendar year by substituting ‘calendar  
 4 year 1996’ for ‘calendar year 1992’ in sub-  
 5 paragraph (B) thereof.

6 “(B) ROUNDING.—The rounding rules of  
 7 section 221(b)(3)(C) shall apply to any increase  
 8 under subparagraph (A).

9 “(6) ROLLOVER CONTRIBUTIONS.—Paragraph  
 10 (1) shall not apply to any rollover contribution de-  
 11 scribed in subsection (c)(2)(F)(i)(II) or (d)(3)(B).

12 “(c) DEFINITIONS AND SPECIAL RULES.—For pur-  
 13 poses of this section—

14 “(1) ELIGIBLE INDIVIDUAL.—The term ‘eligible  
 15 individual’ means an individual who is—

16 “(A) a child (within the meaning of section  
 17 153(e)(3)) of the taxpayer or of a brother, sis-  
 18 ter, stepbrother, or stepsister of the taxpayer,

19 “(B) an individual with respect to whom  
 20 the taxpayer has been appointed guardian by a  
 21 court of competent jurisdiction, or

22 “(C) a descendant of a child of the tax-  
 23 payer.

1           “(2) EDUCATION SAVINGS ACCOUNT.—The  
 2           term ‘education savings account’ means a trust cre-  
 3           ated or organized in the United States exclusively  
 4           for the purpose of paying the educational expenses  
 5           of an eligible individual, but only if the written gov-  
 6           erning instrument creating the trust meets the fol-  
 7           lowing requirements:

8                   “(A) No contribution will be accepted un-  
 9                   less it is in cash, stocks, bonds, or other securi-  
 10                  ties which are readily tradeable on an estab-  
 11                  lished securities market, and, except in the case  
 12                  of contributions from another education savings  
 13                  account, contributions will not be accepted for  
 14                  the taxable year in excess of \$2,000.

15                  “(B) The trustee is a bank (as defined in  
 16                  section 408(n)) or another person who dem-  
 17                  onstrates to the satisfaction of the Secretary  
 18                  that the manner in which the person will ad-  
 19                  minister the trust will be consistent with the re-  
 20                  quirements of this section.

21                  “(C) No part of the trust assets will be in-  
 22                  vested in life insurance contracts (other than  
 23                  contracts the beneficiary of which is the trust  
 24                  and the face amount of which does not exceed  
 25                  the amount by which the maximum amount

1           which can be contributed to the account exceeds  
2           the sum of the amounts contributed to the ac-  
3           count for all taxable years).

4           “(D) The assets of the account may be in-  
5           vested in accordance with the direction of the  
6           individual contributing to the account, but, if  
7           more than one individual has made contribu-  
8           tions to the account, the consent of all such in-  
9           dividuals shall be required for any such direc-  
10          tion.

11          “(E) The assets of the trust shall not be  
12          commingled with other property except in a  
13          common trust fund or common investment  
14          fund.

15          “(F)(i) Any balance in the account on the  
16          day after the date on which the individual for  
17          whose benefit the trust is established attains  
18          age 30 (or, if earlier, the date on which such  
19          individual dies) shall be distributed within 30  
20          days of such date—

21                 “(I) in accordance with paragraph (5)  
22                 to each of the individuals who have con-  
23                 tributed to the trust, or

1                   “(II) as directed by such individuals,  
 2                   to another education savings account es-  
 3                   tablished for the benefit of an eligible indi-  
 4                   vidual who has not attained age 30 or to  
 5                   an eligible educational institution.

6                   “(ii) If an individual is at least a half-time  
 7                   student at an eligible educational institution at  
 8                   the time the individual attains age 30, clause (i)  
 9                   shall not apply until the individual ceases to be  
 10                  such a student.

11                  “(3) TIME WHEN CONTRIBUTIONS DEEMED  
 12                  MADE.—A taxpayer shall be deemed to have made a  
 13                  contribution on the last day of the preceding taxable  
 14                  year if the contribution is made on account of such  
 15                  taxable year and is made not later than the time  
 16                  prescribed by law for filing the return for such tax-  
 17                  able year (including extensions thereof).

18                  “(4) STOCK, ETC., TO BE VALUED AS OF  
 19                  TRANSFER DATE.—The fair market value of stocks,  
 20                  bonds, and other securities shall be determined as of  
 21                  the date on which they are transferred to the ac-  
 22                  count. If the date of transfer falls on a Saturday,  
 23                  Sunday, or public legal holiday, then the fair market  
 24                  value shall be determined by reference to the last

preceding day on which they could have been traded  
on an established securities market.

“(5) DISTRIBUTION OF BALANCE IN ACCOUNT  
TO CONTRIBUTORS.—The Secretary shall prescribe  
regulations describing the manner in which any bal-  
ance in the education savings account shall be dis-  
tributed under paragraph (2)(F)(i)(I) among the  
contributors to the account. Any division of the bal-  
ance in the account shall reflect—

“(A) the amount of net income of the ac-  
count which is attributable to the contributions  
of each such individual, and

“(B) a proper allocation of any amounts  
previously distributed from the account for edu-  
cational expenses among the contributions  
which were made before any such distribution  
(including the net income of the account which  
was attributable to such contributions and  
earned before any such distribution).

“(6) EDUCATIONAL EXPENSES.—The term  
‘educational expenses’ means—

“(A) tuition and fees required for the en-  
rollment or attendance of a student at an eligi-  
ble educational institution,

1           “(B) fees, books, supplies, and equipment  
2           required for courses of instruction at an eligible  
3           educational institution, and

4           “(C) a reasonable allowance for meals and  
5           lodging while attending an eligible educational  
6           institution.

7           “(7) ELIGIBLE EDUCATIONAL INSTITUTION.—  
8           The term ‘eligible educational institution’ means an  
9           institution of higher education described in section  
10          481(a) of the Higher Education Act of 1965.

11          “(d) TAX TREATMENT OF DISTRIBUTIONS.—

12           “(1) IN GENERAL.—Except as otherwise pro-  
13          vided in this subsection, any amount paid or distrib-  
14          uted out of an education savings account shall be in-  
15          cluded in gross income of the payee or distributee  
16          for the taxable year in which the payment or dis-  
17          tribution is received to the extent such amount is  
18          not the return of a contribution for which no deduc-  
19          tion was allowed under subsection (a) (as deter-  
20          mined in the same manner as provided under section  
21          72).

22           “(2) DISTRIBUTION USED TO PAY EDU-  
23          CATIONAL EXPENSES.—Paragraph (1) shall not  
24          apply to any payment or distribution out of an edu-  
25          cation savings account to the extent such payment

1 or distribution is used exclusively to pay the edu-  
 2 cational expenses incurred by the individual for  
 3 whose benefit the account is established.

4 “(3) DISTRIBUTIONS TO ANOTHER ACCOUNT OR  
 5 TO ELIGIBLE EDUCATIONAL INSTITUTION.—

6 “(A) IN GENERAL.—Paragraph (1) shall  
 7 not apply to any distribution under subsection  
 8 (c)(2)(F)(i)(II).

9 “(B) ROLLOVER CONTRIBUTIONS.—Para-  
 10 graph (1) shall not apply to any distribution—

11 “(i) from an education savings ac-  
 12 count of the individual for whose benefit  
 13 the account is established which, within 60  
 14 days of such distribution, is paid to an-  
 15 other such account of such individual, or

16 “(ii) which is not described in sub-  
 17 paragraph (A) and which, as directed by  
 18 individuals who have contributed to the ac-  
 19 count, is paid to another education savings  
 20 account established for the benefit of an el-  
 21 igible individual who is a member of the  
 22 family (within the meaning of section  
 23 2032A(e)(2)) of the account holder.

24 “(4) EXCESS CONTRIBUTIONS RETURNED BE-  
 25 FORE DUE DATE OF RETURN.—Paragraph (1) does



1 not apply to the distribution of any contribution paid  
 2 during a taxable year to an education savings ac-  
 3 count to the extent that such contribution exceeds  
 4 the amount allowable as a deduction under sub-  
 5 section (a) if—

6 “(A) such distribution is received on or be-  
 7 fore the day prescribed by law (including exten-  
 8 sions of time) for filing such individual’s return  
 9 for such taxable year,

10 “(B) no deduction is allowed under sub-  
 11 section (a) with respect to such excess contribu-  
 12 tion, and

13 “(C) such distribution is accompanied by  
 14 the amount of net income attributable to such  
 15 excess contribution.

16 Any net income described in subparagraph (C) shall  
 17 be included in the gross income of the individual for  
 18 the taxable year in which such excess contribution  
 19 was made.

20 “(e) TAX TREATMENT OF ACCOUNTS.—

21 “(1) EXEMPTION FROM TAX.—An education  
 22 savings account is exempt from taxation under this  
 23 subtitle unless such account has ceased to be an  
 24 education savings account by reason of paragraph  
 25 (2) or (3). Notwithstanding the preceding sentence,

1 any such account is subject to the taxes imposed by  
 2 section 511 (relating to imposition of tax on unre-  
 3 lated business income of charitable, etc. organiza-  
 4 tions).

5 “(2) LOSS OF EXEMPTION OF ACCOUNT WHERE  
 6 INDIVIDUAL ENGAGES IN PROHIBITED TRANS-  
 7 ACTION.—

8 “(A) IN GENERAL.—If the individual for  
 9 whose benefit an education savings account is  
 10 established or any individual who contributes to  
 11 such account engages in any transaction prohib-  
 12 ited by section 4975 with respect to the ac-  
 13 count, the account shall cease to be an edu-  
 14 cation savings account as of the first day of the  
 15 taxable year (of the individual so engaging in  
 16 such transaction) during which such transaction  
 17 occurs.

18 “(B) ACCOUNT TREATED AS DISTRIBUTING  
 19 ALL ITS ASSETS.—In any case in which any ac-  
 20 count ceases to be an education savings account  
 21 by reason of subparagraph (A) as of the first  
 22 day of any taxable year, paragraph (1) of sub-  
 23 section (d) shall apply as if there was a dis-  
 24 tribution on such first day in an amount equal

1 to the fair market value (on such first day) of  
 2 all assets in the account (on such first day).

3 “(3) EFFECT OF PLEDGING ACCOUNT AS SECU-  
 4 RITY.—If, during any taxable year, the individual for  
 5 whose benefit an education savings account is estab-  
 6 lished, or any individual who contributes to such ac-  
 7 count, uses the account or any portion thereof as se-  
 8 curity for a loan, the portion so used shall be treated  
 9 as distributed to the individual so using such por-  
 10 tion.

11 “(f) ADDITIONAL TAX ON CERTAIN AMOUNTS IN-  
 12 CLUDED IN GROSS INCOME.—

13 “(1) DISTRIBUTION NOT USED FOR EDU-  
 14 CATIONAL EXPENSES.—In the case of any payment  
 15 or distribution to which subsection (d)(1) applies,  
 16 the tax liability of each payee or distributee under  
 17 this chapter for the taxable year in which the pay-  
 18 ment or distribution is received shall be increased by  
 19 an amount equal to 10 percent of the amount of the  
 20 distribution which is includible in the gross income  
 21 of such payee or distributee for such taxable year.

22 “(2) DISQUALIFICATION CASES.—If an amount  
 23 is includible in the gross income of an individual for  
 24 a taxable year because such amount is required to  
 25 be treated as a distribution under paragraph (2) or

(3) of subsection (e), such individual's tax liability under this chapter for such taxable year shall be increased by an amount equal to 10 percent of such amount required to be treated as a distribution and included in the individual's gross income.

“(3) DISABILITY OR DEATH CASES AND UNEMPLOYMENT.—Paragraphs (1) and (2) shall not apply if the payment or distribution—

“(A) is made after the individual for whose benefit the education savings account becomes disabled within the meaning of section 72(m)(7) or dies, or

“(B) is made to an individual who is a contributor after separation from employment if—

“(i) such individual has received unemployment compensation for 12 consecutive weeks under any Federal or State unemployment compensation law by reason of such separation, and

“(ii) such distributions are made during any taxable year during which such unemployment compensation is paid or the succeeding taxable year.

1       To the extent provided in regulations, a self-em-  
2       ployed individual shall be treated as meeting the re-  
3       quirements of subparagraph (B)(i) if, under Federal  
4       or State law, the individual would have received un-  
5       employment compensation but for the fact the indi-  
6       vidual was self-employed.

7       “(g) COMMUNITY PROPERTY LAWS.—This section  
8       shall be applied without regard to any community property  
9       laws.

10       “(h) CUSTODIAL ACCOUNTS.—For purposes of this  
11       section, a custodial account shall be treated as a trust if  
12       the assets of such account are held by a bank (as defined  
13       in section 408(n)) or another person who demonstrates,  
14       to the satisfaction of the Secretary, that the manner in  
15       which he will administer the account will be consistent  
16       with the requirements of this section, and if the custodial  
17       account would, except for the fact that it is not a trust,  
18       constitute an education savings account described in sub-  
19       section (c)(2). For purposes of this title, in the case of  
20       a custodial account treated as a trust by reason of the  
21       preceding sentence, the custodian of such account shall be  
22       treated as the trustee thereof.

23       “(i) REPORTS.—The trustee of an education savings  
24       account shall make such reports regarding such account  
25       to the Secretary and to the individual for whose benefit

1 the account is maintained with respect to contributions,  
 2 distributions, and such other matters as the Secretary  
 3 may require under regulations. The reports required by  
 4 this subsection shall be filed at such time and in such  
 5 manner and furnished to such individuals at such time and  
 6 in such manner as may be required by those regulations.

7 “(j) COORDINATION WITH FEDERAL MEANS-TESTED  
 8 PROGRAMS.—For purposes of any Federal means-tested  
 9 program, the balance in any education savings account  
 10 (and any income from such account) shall not be treated  
 11 as an asset (or income) of the individual for whom the  
 12 account is established or any parent of such individual.

13 “(k) DEFINITIONS AND RULES RELATING TO NON-  
 14 DEDUCTIBLE CONTRIBUTIONS TO EDUCATION SAVINGS  
 15 ACCOUNTS.—

16 “(1) IN GENERAL.—Subject to the provisions of  
 17 this subsection, designated nondeductible contribu-  
 18 tions may be made on behalf of an individual to an  
 19 education savings account.

20 “(2) LIMITS ON AMOUNTS WHICH MAY BE CON-  
 21 TRIBUTED.—

22 “(A) IN GENERAL.—The amount of the  
 23 designated nondeductible contributions made on  
 24 behalf of any individual for any taxable year

1           shall not exceed the nondeductible limit for  
2           such taxable year.

3           “(B) NONDEDUCTIBLE LIMIT.—For pur-  
4           poses of this paragraph—

5           “(i) IN GENERAL.—The term ‘non-  
6           deductible limit’ means the excess of—

7           “(I) the amount allowable as a  
8           deduction under this section (deter-  
9           mined without regard to subsection  
10          (b)(2)), over

11          “(II) the amount allowable as a  
12          deduction under this section (deter-  
13          mined with regard to subsection  
14          (b)(2)).

15          “(ii) TAXPAYER MAY ELECT TO TREAT  
16          DEDUCTIBLE CONTRIBUTIONS AS NON-  
17          DEDUCTIBLE.—If a taxpayer elects not to  
18          deduct an amount which (without regard  
19          to this clause) is allowable as a deduction  
20          under this section for any taxable year, the  
21          nondeductible limit for such taxable year  
22          shall be increased by such amount.

23          “(C) DESIGNATED NONDEDUCTIBLE CON-  
24          TRIBUTIONS.—

1                   “(i) IN GENERAL.—For purposes of  
 2                   this paragraph, the term ‘designated non-  
 3                   deductible contribution’ means any con-  
 4                   tribution to an education savings account  
 5                   for the taxable year which is designated (in  
 6                   such manner as the Secretary may pre-  
 7                   scribe) as a contribution for which a de-  
 8                   duction is not allowable under this section.

9                   “(ii) DESIGNATION.—Any designation  
 10                  under clause (i) shall be made on the re-  
 11                  turn of tax imposed by chapter 1 for the  
 12                  taxable year.

13               “(3) TIME WHEN CONTRIBUTIONS MADE.—In  
 14               determining for which taxable year a designated  
 15               nondeductible contribution is made, the rule of sub-  
 16               section (c)(3) shall apply.

17               “(4) INDIVIDUAL REQUIRED TO REPORT  
 18               AMOUNT OF DESIGNATED NONDEDUCTIBLE CON-  
 19               TRIBUTIONS.—

20               “(A) IN GENERAL.—Any individual who—

21                   “(i) makes a designated nondeductible  
 22                   contribution to any education savings ac-  
 23                   count for any taxable year, or



1           “(ii) receives any amount from any  
 2           education savings account for any taxable  
 3           year,  
 4           shall include on his return of the tax imposed  
 5           by chapter 1 for such taxable year and any suc-  
 6           ceeding taxable year (or on such other form as  
 7           the Secretary may prescribe for any such tax-  
 8           able year) information described in subpara-  
 9           graph (B).

10           “(B) INFORMATION REQUIRED TO BE SUP-  
 11           PLIED.—The following information is described  
 12           in this subparagraph:

13           “(i) The amount of designated non-  
 14           deductible contributions for the taxable  
 15           year.

16           “(ii) The amount of distributions from  
 17           education savings accounts for the taxable  
 18           year.

19           “(iii) The excess (if any) of—

20           “(I) the aggregate amount of  
 21           designated nondeductible contribu-  
 22           tions for all preceding taxable years,  
 23           over

24           “(II) the aggregate amount of  
 25           distributions from education savings

1 accounts which was excludable from  
 2 gross income for such taxable years.

3 “(iv) The aggregate balance of the  
 4 education savings account of the individual  
 5 as of the close of the calendar year in  
 6 which the taxable year begins.

7 “(v) Such other information as the  
 8 Secretary may prescribe.”

9 (b) DEDUCTION ALLOWED IN ARRIVING AT AD-  
 10 JUSTED GROSS INCOME.—Paragraph (7) of section 62(a)  
 11 (relating to retirement savings) is amended—

12 (1) by inserting “OR EDUCATION” after “RE-  
 13 TIREMENT” in the heading of such paragraph, and

14 (2) by inserting before the period at the end the  
 15 following: “and the deduction allowed by section 222  
 16 (relating to education savings accounts)”.

17 (c) TAX ON EXCESS CONTRIBUTIONS.—Section 4973  
 18 (relating to tax on excess contributions to individual re-  
 19 tirement accounts, certain section 403(b) contracts, and  
 20 certain individual retirement annuities) is amended—

21 (1) by inserting “**EDUCATION SAVINGS AC-**  
 22 **COUNTS,**” after “**SAVINGS ACCOUNTS,**” in the  
 23 heading of such section,

24 (2) by striking “or” at the end of paragraph  
 25 (2) of subsection (a),

1           (3) by redesignating paragraph (3) of sub-  
 2           section (a) as paragraph (4) and by inserting after  
 3           paragraph (2) the following new paragraph:

4           “(3) an education savings account (within the  
 5           meaning of section 222(c)(2)), or”, and

6           (4) by adding at the end the following new sub-  
 7           section:

8           “(e) EXCESS CONTRIBUTIONS TO EDUCATION SAV-  
 9           INGS ACCOUNTS.—For purposes of this section, in the  
 10          case of an education savings account, the term ‘excess con-  
 11          tributions’ means the amount by which the amount con-  
 12          tributed for the taxable year to the account exceeds the  
 13          amount allowable as a deduction under section 222 for  
 14          such taxable year. For purposes of this subsection, any  
 15          contribution which is distributed out of the education sav-  
 16          ings account in a distribution to which section 222(d)(4)  
 17          applies shall be treated as an amount not contributed.”

18          (d) CONTRIBUTION NOT SUBJECT TO GIFT TAX.—  
 19          Section 2503 (relating to taxable gifts) is amended by  
 20          adding at the end the following new subsection:

21          “(h) EDUCATION SAVINGS ACCOUNTS.—Any con-  
 22          tribution (including any rollover contribution) made by an  
 23          individual to an education savings account described in  
 24          section 222(c)(2) which is allowable as a deduction under

1 section 222 shall not be treated as a transfer of property  
 2 by gift for purposes of this chapter.”

3 (e) TAX ON PROHIBITED TRANSACTIONS.—Section  
 4 4975 (relating to prohibited transactions) is amended—

5 (1) by adding at the end of subsection (c) the  
 6 following new paragraph:

7 “(5) SPECIAL RULE FOR EDUCATION SAVINGS  
 8 ACCOUNTS.—An individual for whose benefit an edu-  
 9 cation savings account is established and any con-  
 10 tributor to such account shall be exempt from the  
 11 tax imposed by this section with respect to any  
 12 transaction concerning such account (which would  
 13 otherwise be taxable under this section) if, with re-  
 14 spect to such transaction, the account ceases to be  
 15 an education savings account by reason of the appli-  
 16 cation of section 222(e)(2)(A) to such account.”;  
 17 and

18 (2) in subsection (e)(1), by striking “or” at the  
 19 end of subparagraph (D), by redesignating subpara-  
 20 graph (E) as subparagraph (F), and by inserting  
 21 after subparagraph (D) the following new subpara-  
 22 graph:

23 “(E) an education savings account de-  
 24 scribed in section 222(c)(2), or”.

1 (f) FAILURE TO PROVIDE REPORTS ON EDUCATION  
 2 SAVINGS ACCOUNTS.—Section 6693 (relating to failure to  
 3 provide reports on individual retirement accounts or annu-  
 4 ities) is amended—

5 (1) by inserting “**OR ON EDUCATION SAV-**  
 6 **INGS ACCOUNTS**” after “**ANNUITIES**” in the  
 7 heading of such section, and

8 (2) in subsection (a)(2), by striking “and” at  
 9 the end of subparagraph (A), by striking the period  
 10 at the end of subparagraph (B) and inserting “,  
 11 and”, and by adding at the end the following new  
 12 subparagraph:

13 “(C) section 222(i) (relating to education  
 14 savings accounts).”

15 (g) SPECIAL RULE FOR DETERMINING AMOUNTS OF  
 16 SUPPORT FOR DEPENDENT.—Subsection (b) of section  
 17 152 (relating to definition of dependent) is amended by  
 18 adding at the end the following new paragraph:

19 “(6) A distribution from an education savings  
 20 account described in section 222(c)(2) to the individ-  
 21 ual for whose benefit such account has been estab-  
 22 lished shall not be taken into account in determining  
 23 support for purposes of this section to the extent  
 24 such distribution is excluded from gross income of  
 25 such individual under section 222(d)(2).”

1 (h) CLERICAL AMENDMENTS.—

2 (1) The table of sections for part VII of sub-  
 3 chapter B of chapter 1 is amended by striking the  
 4 item relating to section 222 and inserting the follow-  
 5 ing new items:

“Sec. 222. Education savings accounts.  
 “Sec. 223. Cross reference.”

6 (2) The table of sections for chapter 43 is  
 7 amended by striking the item relating to section  
 8 4973 and inserting the following new item:

“Sec. 4973. Tax on excess contributions to individual retirement  
 accounts, medical savings accounts, education sav-  
 ings accounts, certain 403(b) contracts, and certain  
 individual retirement annuities.”

9 (3) The table of sections for subchapter B of  
 10 chapter 68 is amended by striking the item relating  
 11 to section 6693 and inserting the following new  
 12 item:

“Sec. 6693. Failure to provide reports on individual retirement  
 accounts or annuities or on education savings ac-  
 counts.”

13 (i) EFFECTIVE DATE.—The amendments made by  
 14 this section shall apply to taxable years beginning after  
 15 December 31, 1996.

16 **SEC. 113. INCREASE IN INCOME LIMITS FOR SAVINGS BOND**  
 17 **EXCLUSION.**

18 (a) IN GENERAL.—Paragraph (2) of section 135(b)  
 19 is amended to read as follows:

1           “(2) LIMITATION BASED ON MODIFIED AD-  
2 JUSTED GROSS INCOME.—

3           “(A) IN GENERAL.—If the modified ad-  
4 justed gross income of the taxpayer for the tax-  
5 able year exceeds \$70,000 (\$100,000 in the  
6 case of a joint return), the amount which would  
7 (but for this paragraph) be excludable from  
8 gross income under subsection (a) shall be re-  
9 duced (but not below zero) by the amount  
10 which bears the same ratio to the amount which  
11 would be so excludable as such excess bears to  
12 \$20,000.

13           “(B) INFLATION ADJUSTMENT.—In the  
14 case of any taxable year beginning in a calendar  
15 year after 1997, the \$70,000 and \$100,000  
16 amounts contained in subparagraph (A) shall  
17 be increased by an amount equal to—

18                   “(i) such dollar amount, multiplied by

19                   “(ii) the cost-of-living adjustment  
20 under section 1(f)(3) for the calendar year  
21 in which the taxable year begins, deter-  
22 mined by substituting ‘1996’ for ‘1992’ in  
23 subparagraph (B) thereof.

1           “(C) ROUNDING.—If any amount as ad-  
 2           justed under subparagraph (B) is not a mul-  
 3           tiple of \$50, such amount shall be rounded to  
 4           the nearest multiple of \$50 (or if such amount  
 5           is a multiple of \$25, such amount shall be  
 6           rounded to the next highest multiple of \$50).”

7           (b) EFFECTIVE DATE.—The amendments made by  
 8           this section shall apply to taxable years beginning after  
 9           December 31, 1996.

## 10       **TITLE II—SCHOLARSHIPS FOR** 11       **ACADEMIC ACHIEVEMENT**

### 12       **SEC. 201. ACADEMIC ACHIEVEMENT SCHOLARSHIPS.**

13           (a) SCHOLARSHIPS.—The Secretary of Education is  
 14           authorized to award scholarships for academic year 1998–  
 15           1999 and succeeding academic years to each student in  
 16           a State who graduated in the top 5 percent of such stu-  
 17           dent’s graduating class from secondary school in academic  
 18           year 1997–1998 or a succeeding academic year.

19           (b) AMOUNT.—Each scholarship awarded under this  
 20           section shall be in the amount of \$1,000.

21           (c) NUMBER AND USE.—Each student described in  
 22           subsection (a) may receive a maximum of 2 scholarships  
 23           under this section for use at any institution of higher edu-  
 24           cation during any 4 academic years.



1 (d) CONTINUING ELIGIBILITY.—In order to be eligi-  
 2 ble to receive a second scholarship under this section, a  
 3 student shall maintain a 3.0 grade point average on a 4.0  
 4 grade point scale during such student’s first year of study  
 5 at an institution of higher education.

6 (e) LIMITATION BASED ON MODIFIED ADJUSTED  
 7 GROSS INCOME.—

8 (1) IN GENERAL.—The Secretary of Education  
 9 shall not award a scholarship to a student under this  
 10 section if the modified adjusted gross income of the  
 11 parents of such student in the case of a dependent  
 12 student, or the student in the case of an independ-  
 13 ent student, for the most recent taxable year ending  
 14 before the academic year for which the scholarship  
 15 is awarded exceeds \$70,000 (\$100,000 in the case  
 16 of a joint return).

17 (2) MODIFIED ADJUSTED GROSS INCOME.—The  
 18 term “modified adjusted gross income” means the  
 19 adjusted gross income of the taxpayer for the tax-  
 20 able year determined without regard to sections 911,  
 21 931, and 933 of the Internal Revenue Code of 1986.

22 (3) ADJUSTMENT OF DOLLAR AMOUNT LIMITA-  
 23 TIONS FOR INFLATION.—

24 (A) IN GENERAL.—In the case of any cal-  
 25 endar year after 1997, the \$70,000 and

1           \$100,000 amounts under paragraph (1), shall  
 2           each be increased by an amount equal to—

3                   (i) such dollar amount, multiplied by

4                   (ii) the cost-of-living adjustment de-  
 5           termined under section 1(f)(3) of the In-  
 6           ternal Revenue Code of 1986 for such cal-  
 7           endar year by substituting “calendar year  
 8           1996” for “calendar year 1992” in sub-  
 9           paragraph (B) of such section.

10           (B) ROUNDING.—The rounding rules of  
 11           section 220(b)(3)(C) of the Internal Revenue  
 12           Code of 1986 shall apply to any increase under  
 13           subparagraph (A).

14           (f) REGULATIONS.—The Secretary of Education shall  
 15           promulgate regulations regarding the notification concern-  
 16           ing, payment of, and continuing eligibility for, scholarships  
 17           under this section.

18   **SEC. 202. DEFINITIONS.**

19           For the purpose of this title—

20                   (1) the term “institution of higher education”  
 21           has the meaning given such term in section 1201 of  
 22           the Higher Education Act of 1965 (20 U.S.C.  
 23           1141);

1           (2) the term “secondary school” has the mean-  
 2           ing given such term in section 14101 of the Elemen-  
 3           tary and Secondary Education Act of 1965 (20  
 4           U.S.C. 8801); and

5           (3) the term “State” means each of the several  
 6           States of the United States and the District of Co-  
 7           lumbia.

8   **SEC. 203. AUTHORIZATION OF APPROPRIATIONS.**

9           There are authorized to be appropriated  
 10       \$130,000,000 for fiscal year 1998 and \$260,000,000 for  
 11       each of the 4 succeeding fiscal years.

12   **TITLE III—DEFICIT NEUTRALITY**

13   **SEC. 301. SENSE OF THE SENATE.**

14       It is the sense of the Senate that—

15           (1) this Act will not increase the budget deficit  
 16           of the United States; and

17           (2) the costs of carrying out this Act should be  
 18           paid by closing corporate tax loopholes.

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